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## Conference Call Transcript

**COLM - Q1 2008 Columbia Sportswear Earnings Conference Call**

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--I will be your conference operator today. At this time, I would like to welcome everyone to the Columbia Sportswear First Quarter 2008 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session.

(OPERATOR INSTRUCTIONS)

Mr. Parham, you may begin your conference.

**Ron Parham - Columbia Sportswear - IR**

Thank you, Eva. Good afternoon, everyone, and thanks for joining us on today's call. With me today are Columbia Sportswear's Chairman Gert Boyle, President and CEO Tim Boyle, CFO Bryan Timm, and General Counsel Peter Bragdon.

We'll start today's call with prepared remarks reviewing the results of the 2008 first quarter and provide more color around our full year and second quarter 2008 revenue and earnings guidance that was included in today's earnings announcement. Following that, we'll field your questions. Before we begin, Gert has an important reminder for our listeners.

**Gert Boyle - Columbia Sportswear - Chairman**

Good afternoon. I'd like to remind everyone that this conference call will be -- will contain forward-looking statements regarding Columbia's business opportunities and anticipated results of operations. Please bear in mind that forward-looking information is subject to many risks and uncertainties and actual results may differ materially from its projected. Many of these risks and uncertainties are described in Columbia's quarterly report on form 10-K for the year ending December 31, 2007 and subsequent filings with the SEC. Forward-looking statements in this conference call are based on our current expectations and beliefs, and we do not undertake any duty to update any of the forward-looking statements after the date of this conference call to conform the forward-looking statements to actual results or to changes in our expectations.

**Ron Parham - Columbia Sportswear - IR**

Thank you, Gert. And just before I turn the call over to Tim, I would just like to point out that in the financial schedules that we included with the press release this quarter, we also for the first time included a statement of cash flows in response to some of your requests and just in keeping with our efforts to provide more information to you on a timely basis. So just wanted to point that out. With that, I'll hand it over to Tim.

**Tim Boyle - Columbia Sportswear - President, CEO**

Thanks, Ron. Welcome everyone and thank you for joining us this afternoon. By now I'm sure you've had a chance to review the earnings release and financial statements that we issued earlier this afternoon. I'm going to focus most of my comments on our strategic initiatives and let Bryan review the financial highlights of the first quarter and our guidance for the second quarter and remainder of '08.

I'll start by touching on some of the top line highlights from the first quarter. Consolidated net sales increased 3% with sales in our Canadian and LAAP regions up 4% and 20% respectively, aided by currency exchange rates that added 15% and 4% respectively to those comparisons. EMEA net sales declined 3% in the first quarter, including a 10 percentage point benefit from exchange rates.

EMEA direct net sales were down 1% and EMEA sales to distributors were down 11%, reflecting the earlier shipment of spring '08 products in the fourth quarter of '07, versus the spring's '07 shipments that occurred in last year's first quarter. U.S. net sales were essentially equal to last year's first quarter at \$156 million.

Looking at consolidated first quarter net sales by category. Sportswear, typically the largest category in this quarter by a wide margin, was down 1%, while our smaller outerwear category grew 16%, compared with last year's first quarter. Footwear net sales declined 3%, reflecting early shipment of spring 2008 products to our EMEA and LAAP distributors in the fourth quarter of 2007. We also announced today that as of March 31, 2008, combined 2008 quarter backlog for the spring and fall seasons totaled \$849.8 million, a decrease of approximately 4% compared with combined 2007 spring and fall order backlog of [\$8.88 million] (sic - see Press Release) \$888.7 million at March 31, 2007. Changes in currency exchange rates contributed approximately 4 percentage points of benefit to the combined order backlog comparison.

Analyzing the fall 2008 backlog by region. U.S. fall 2008 backlog is down high single digits, which we believe primarily reflects retailers conservative buying posture in the face of uncertainty about consumer discretionary spending the second half of '08. Fall 2008 backlog in our EMEA region is down mid-single digits, including a high single digit benefit from exchange rates. We believe the decline in our Europe direct backlog continues to highlight the misalignment of our regional product line in relation to consumers and retailers perception of the Columbia brand.

As stated previously, our new European management team is working closely with our U.S. product, sales, and marketing teams on multiple levels to realign the product assortment for these markets, beginning with the spring 2009 season. We expect this alignment to approve further as we move further through the fall 2009 and beyond.

Our fall 2008 backlog was essentially flat in Canada on a constant dollar basis, and on a positive note was up double digits in our LAAP region, including high single digit benefits from exchange rates. While there are few bright spots, these backlog numbers taken as a whole are obviously not where we would like them to be. More than anything else, they tell us that the investments we have chosen to make in retail expansion and additional marketing are necessary and timely to create demand for our brands and to build strong emotional connections to consumers.

While other companies may be delaying or canceling their expansion plans, our strong balance sheet gives us the confidence and flexibility to act now to position ourselves for long-term growth. From our perspective, the most significant event to occur in the first quarter was our USA launch

of Omni-Shade apparel and Techlite footwear. This launch is significant because it represents the first major initiatives that we have brought to market under our enhanced global market strategy and sets the stage for other global initiatives that we have planned for future seasons.

In the Southern region of the U.S. where we executed an earlier Omni-Shade marketing launch in February, and where the weather has been closer to normal, Omni-Shade has performed very well. Several of our major accounts with a strong presence in the region have reported Omni-Shade to be among their best selling concepts and logging improved sell-through compared to our spring 2007 assortment. We've also been able to measure the impact of Omni-Shade in the virtual world, where in the past month one third of the searches performed on our corporate website have been for Omni-Shade.

Early reports on Techlite footwear from the sunny Southern U.S. are equally encouraging with several of our new trail shoes and sandals generating strong initial sell-through.

While those are just a few of the early data points, they reinforce our beliefs around the power of a cohesive, integrated, go-to-market approach in which most of our marketing resources and those of our customers are aligned behind concepts that resonate with consumers, create demand, and build the Columbia brand.

We believe that whenever we bring compelling product to market, clearly communicate our seasonal concepts through effective advertising, and engage consumers in those same brand and concept messages at the point of sale, we win. That's the essence of the strategic initiatives we first laid out last October and that we are committed to evolving over the next several years. I'll have more to share about those strategic initiatives after Bryan's review of the first quarter and our guidance for the remainder of '08.

Before I turn the call over to Bryan however, I want to update you on some management changes in direct response to the recent resignation of Pat Anderson, our former Chief Operating Officer. Bryan Timm, who has served as the company's Chief Financial Officer since 2002, will assume the roll of COO and will continue to act as the company's CFO on an interim basis while internal financial leaders take on additional responsibilities. Bryan has proven his leadership capabilities over his 11 year career at Columbia, and brings the kind of leadership required to insure the company's supply chain and internal process -- processes continue to evolve in step with the rapidly changing retail environment. Tom Cusick, currently our Vice President of Finance, will become the company's Chief Accounting Officer.

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#### **Bryan Timm - Columbia Sportswear - CFO**

Thanks, Tim. Good afternoon, everyone. Tim covered the highlights on our top line, so I'll start with gross margins, and quickly work down the rest of the income statement. First quarter 2008 gross margins increased 20 basis points to 43.9% over last year's first quarter, primarily due to the favorable foreign currency hedge rates. SG&A expenses increased \$13.5 million over last year's first quarter to \$103.9 million, or 34.9% of sales. This equates to a 370 basis point increase compared to last year's first quarter. This SG&A expansion is a direct result of our increased marketing investments to support our Omni-Shade and Techlite launch, startup and operational costs of our new retail stores, and higher depreciation costs related to our Portland distribution center retrofit that came online in April of 2007.

Operating income declined 26% to \$27.5 million in the first quarter, and resulted in operating margin of 9.2% versus 12.9% of net sales in last year's first quarter. Cash rate for the first quarter was 33%, compared to 34% in last year's first quarter.

Net income totaled \$19.9 million, or \$0.56 per diluted share, compared to \$26.1 million, or \$0.71 per diluted share in the first quarter 2007. The balance sheet remains very strong with cash and short-term investments totaling \$278.1 million versus \$268.6 million at the same time last year. Consolidated accounts receivable was \$246.2 million, up 5% from March 31, 2007, primarily due to increased sales in the quarter, and the year-over-year effect of exchange rates.

Consolidated inventories declined 10% sequentially to \$238.1 million, compared with \$265.9 million at December 31, 2007, reflecting the shipment of spring 2008 products that we had taken early delivery of during the fourth quarter in order to insure a timely launch of our spring '08 Omni-Shade and Techlite initiatives. Compared to last year levels, inventories were up 14%, reflecting our expanding retail operations and auto replenishment program. We expect inventories to be lower on a year-over-year basis, beginning with the second quarter of 2008. Capital expenditures were \$14.2 million during the first quarter of 2008, compared to \$6 million in last year's first quarter, primarily reflecting our U.S. retail expansion.

Appreciation amortization expense for the quarter was two -- \$7.9 million versus \$6.3 million in last year's first quarter, with the increase representing the additional depreciation from our previously discussed Portland distribution center project.

During the first quarter, we repurchased approximately 968,000 shares at an aggregate price of \$40.3 million. Since the beginning of the program in 2004, through March 31, 2008, we repurchased a total of 7.6 million shares, or \$356.3 million, leaving approximately 43.7 million under the current authorization. Also, today we announced that Columbia's Board of Directors approved a second quarter dividend of \$.016 per share.

Now let's turn our attention to financial guidance. Please keep in mind that this information is forward-looking in nature and is therefore subject to certain risk factors. Based on Tim's earlier discussion of our combined order backlog, combined with our planned retail expansion and the estimated effect of foreign currency exchange rate differences, we currently expect full year 2008 revenue growth of approximately 2%. We expect full year 2008 consolidated gross margins to expand by approximately 50 basis points from 2007 levels, primarily due to favorable foreign currency hedge rates, the increased contribution from our retail operations, and some increased average selling prices internationally.

Our plans to invest in incremental marketing activities in 2008 in support of our key seasonal brand and product initiatives, together with initial investments in incremental operating costs of our new retail stores, are expected to increase full year 2008 operating expenses as a percentage of consolidated net sales, by approximately 350 basis points, compared to 2007 levels.

Based on the above projections we expect to generate operating margins of approximately 11.7% and diluted earnings per share of approximately \$3.15 to \$3.20 for the full year 2008. We are currently planning on approximately \$45 million in capital spending during 2008, with approximately \$30 million of that related to our retail expansion, and \$15 million related to maintenance CapEx and to a lesser extent, distribution capacity projects.

Looking specifically at Q2, we expect net sales to increase approximately 6%. The incremental marketing spend and our retail expansion plans will pressure our profitability more dramatically in the second quarter because it is our lowest seasonal quarter of the year. As a result, we expect earnings per diluted share to fall to approximately \$0.03, compared to \$0.27 in the second quarter of 2007. Combined, our marketing and retail investments will add approximately 500 basis points to the second quarter SG&A, compared to last year's second quarter. This includes costs associated with opening several new retail doors in the quarter that will be dilutive as they ramp up.

What it really comes down to is investing in our brands for the long-term. While these strategic initiatives will pressure profitability in the near-term, we firmly believe they're the right thing to do for our brands and will be positives in the year to come.

That concludes my remarks. I'll now hand the call back to Tim for his closing comments.

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**Tim Boyle - Columbia Sportswear - President, CEO**

Thanks, Bryan. Before we turn the call over to your questions, I'd like to take a couple of minutes to summarize. One of the cornerstones of Columbia's 70-year heritage is our proven ability to create compelling products that address the evolving needs of each of our generation's outdoor enthusiasts. The seasonal technology initiatives we introduced in 2008, Omni-Shade, Techlite, and Omni-Tech, highlight the performance features of our products and are helping to build greater understanding and excitement among retailers and consumers. We believe these initiatives are proving successful and allowing consumers to stay outdoors longer to enjoy the activities they love. For 2009, we're organizing our products around complete collections designed from the ground up to be integrated and complimentary. For spring 2009, we have larger assortments and better toe -- head to toe integration. We are supporting that by elevating our marketing and expanding our Columbia owned retail presence on a global basis to increase the emotional equity in our already strong brands.

We plan to open a first -- excuse me. We plan to open first line branded retail stores in key markets around the world over the next five years, primarily in the U.S., Europe, and Canada. This part of our strategy is designed to help control and elevate our brand by showing broader assortments than even our largest retailers can show in an environment that clearly communicates the essence of our brands and each of our seasonal initiatives.

Experiencing the complete breadth of our brands and our point of sale imagery helps consumers understand everything that the Columbia family of brands has to offer. We believe that will increase demand for our products and ultimately benefit our retail partners in those markets where we build our brand in stores.

The Columbia brand is strong, and our complimentary family of brands will play an important role in the next five years of our growth. The broad outdoor category in which we compete is also strong, and offers a wide spectrum of consumer interests, which connect consumers to our brands.

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Of course, over a year ago when we first began formulating the plans around our enhanced go-to-market strategy, and our retail expansion, we could not have anticipated the sluggish U.S. retail environment or the cool weather that has prevailed over much of the country so far this spring. And while those headwinds are real, they are ultimately beyond our control and cyclical, and therefore not affecting our firm commitment to move confidently forward with our strategic initiatives.

Thank you very much for listening. We'd be happy to field any questions.

## QUESTION AND ANSWER

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### Operator

(OPERATOR INSTRUCTIONS) Your first question comes from the line of Bob Drbul with Lehman Brothers.

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### Bob Drbul - *Lehman Brothers - Analyst*

Hi. Good afternoon.

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### Tim Boyle - *Columbia Sportswear - President, CEO*

Hi, Bob.

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### Bob Drbul - *Lehman Brothers - Analyst*

A couple of questions. First, Bryan, congratulations and, Tom, I don't know if you're in there, but congratulations too on the new roles. On the 350 basis points of operating margin hit on the marketing and the retail stores, can you give us a sense of how much of that is marketing and how much of that is the retail stores in terms of a breakdown?

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### Bryan Timm - *Columbia Sportswear - CFO*

Sure, Bob. I mean I guess if you do the math, I guess our incremental SG&A from an absolute dollar is somewhere in that close to \$50 million range for the year. So, I would say that the lion's share of that are really split between the retail expansion, which would include of course the personnel as well as the rent, and then also the incremental marketing spend. Those are pretty much tied for the two largest reasons. The only -- and then the only incremental piece would be a small amount of anniversary and personnel costs that we would have had from 2007 and 2008.

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### Bob Drbul - *Lehman Brothers - Analyst*

Okay. Great. And on the inventory, can you elaborate exactly how you're going to have lower year-over-year inventories at the end of the second quarter. Where's some of that going?

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### Bryan Timm - *Columbia Sportswear - CFO*

Right. Well, Bob, a couple of things. Number one I think is as you'll recall from Q4, we did bring some receipts of -- for our product marketing launches in March, we did bring some products in early, which obviously some of those sold through in Q1, will continue on in Q2. The replenishment piece of our inventory certainly will start to go down in Q2 as we build some of that spring product for that time period and we'll continue to work through any excesses, albeit not large, of the fall 2007 products that we have, and that would have been included in the guidance and why you're seeing a little bit of margin -- gross margin contraction in Q2.

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Also, Europe -- Europe's a contributor there as well, not just the U.S., so I think overall we feel pretty confident that while we know we're going to have retail inventories continuing through the year that we feel like we'll have a year-over-year [comp] down in inventory in Q2.

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**Bob Drbul - Lehman Brothers - Analyst**

That's great. And, Tim, just one question for you. When you look at the footwear business and I guess the backlog trends, are you going down the right path now and how encouraged are you by some of the stuff that you're seeing and hearing on the footwear opportunity?

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**Tim Boyle - Columbia Sportswear - President, CEO**

Well, we're very encouraged by along the -- specifically the Techlite initiative. It's in a very significant part of our '08 launch and it'll increase in volume, meaning it'll increase in the quantity of merchandise in '09 that has that kind of Techlite characteristics and performance. So, very happy with it. We've -- just the team seems to be gelling more and more and we're very excited about the opportunity that presents us with footwear. We think we have a -- really an exceptional team and it just looks like we're well on our way to make sure that that is a big part of our business in the future.

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**Bob Drbul - Lehman Brothers - Analyst**

Great. Good luck. Thank you.

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**Tim Boyle - Columbia Sportswear - President, CEO**

Thanks, Bob.

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**Operator**

Your next question comes from the line of Jeff Edelman with UBS.

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**Jeff Edelman - UBS - Analyst**

Thank you. Good afternoon and Bryan my congratulations also. Question on your retail business. Could you sort of give us a sense how right now the profitability is running relative to the corporate total?

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**Tim Boyle - Columbia Sportswear - President, CEO**

Yeah, Jeff, I'll let Bryan talk a little bit about that, but I can tell you that from the initial reaction to the new stores that we're opening, and they're really opening all over the country, has been very significant from consumers really seeing the full breadth of our product line. And we're talking frankly just about outlets, so we don't have the most current merchandise in our outlet stores, but there's been a great reaction. In fact our -- two of our largest volume stores are in Southern California and in Florida, so it's really -- it's been gratifying to see the kind of reaction to the company's product line from those typically not thought of good Columbia geographies. But I'll let Bryan talk more about the specific profitability.

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**Bryan Timm - Columbia Sportswear - CFO**

Yeah, Jeff. I guess as you know Tim in the past, I don't think we're going to be lower the bar with the kind of targets that we want for that part of the business. But I guess I'd say overall we're trying to -- our attempts here are to be accretive, and when I say accretive, accretive from a margin perspective. So we want to make sure that that business model is -- it certainly makes us more profitable.

I would say if you break it up into two parts, there's certainly the outlet piece, which I think we -- our expectation there is it's going to be a little bit more profitable than the first line branded stores. Again, those may take a little bit more leasehold improvements to get them to where we want to really make sure that they're displaying our products appropriately and getting their -- that they're truly branded stores. So, overall they're

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going to be a little bit of a gross margin change between those two types of platforms, but I think overall we want to make sure that it's overall better to the corporate average.

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**Jeff Edelman - UBS - Analyst**

Okay. Just to follow-up on that point. The -- your existing factory outlets today, how have their profits been running?

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**Bryan Timm - Columbia Sportswear - CFO**

Well, I think we had, what? Close to around 13 outlet stores as of the end of the year. Most of those, I think eight or nine of those, had been existing for the last ten. So again, platforms that are very mature, that had good operating profits. Again, it depends on the store, but I would say overall very good profitability from those outlets. But I will say also that what we're not looking to just anniversary in the same kind of operating profits from those stores, but we have made significant improvements in those stores as we've really tried to refine what we're trying to accomplish in the retail sector and we've actually brought up our margins in a lot of those existing stores.

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**Jeff Edelman - UBS - Analyst**

Okay. Thanks. And then secondly, as we look at some of the shift into your distribution, where you do have lower orders, is this concentrated in any particular types of channel or significant customers? Or is it sort of like a little across-the-board?

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**Bryan Timm - Columbia Sportswear - CFO**

I would say that the bulk of our customers are taking a much more conservative approach to fall '08 frankly than they have in the past. They're just looking at the macro economic conditions and being much more conservative.

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**Jeff Edelman - UBS - Analyst**

So, U.S. is off as much as Europe then?

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**Bryan Timm - Columbia Sportswear - CFO**

Actually Europe is a little further off than the U.S. Sorry.

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**Jeff Edelman - UBS - Analyst**

Right.

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**Bryan Timm - Columbia Sportswear - CFO**

From a geography standpoint, yes.

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**Jeff Edelman - UBS - Analyst**

Okay. Thank you.

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**Bryan Timm - Columbia Sportswear - CFO**

Um-hmm.



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**Operator**

Your next question comes from the line of Kate McShane with Citigroup.

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**Kate McShane - Citigroup - Analyst**

We heard from another company last week that retailers are doing less future orders and more at once orders, of course because of the environment. So what does your guidance say incorporates it as at once orders versus last year? And then I guess that leaves me to ask how much speculative inventory are you taking this year and can you remind us how much you took last year?

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**Tim Boyle - Columbia Sportswear - President, CEO**

Certainly. Well, I think we've made a fairly significant effort to have our customers put some basic merchandise on auto replenishment. It's -- it creates a better gross margin for our customers and for ourselves as well. So, from that standpoint, even though it's a small percentage of our total business, that's been increasing. So, customers may want to talk about the automation and auto replenishment. They may be talking about that, which has been a growth area for us as well.

The bulk of what we've talked about typically when we talk about our speculative inventory position has been on the seasonal merchandise and the outerwear component and for customers that deal with Columbia on outerwear. Frankly the -- they're required to give us an advance order if they want to carry the brand and so we have our orders, we have our book and we've estimated what we want to take on as a speculative position and this year '08 will be the smallest speculative position that we've taken in several years. Smaller than last year by a pretty considerable amount. So, that's going to be our position in terms of an inventory speculation on seasonal merchandise from our standpoint.

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**Kate McShane - Citigroup - Analyst**

Okay. Great. And then second question, can you update us on the search of -- or for a new head of your European business? And we keep hearing the Europe is starting to face pretty significant macro headwinds. What have you seen in this market and is this also reflected in your guidance?

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**Tim Boyle - Columbia Sportswear - President, CEO**

Well, for Columbia, we appointed I want to say six months ago now, a new head of our European retail operation. His name is Christian Finell and he's a seasoned veteran of European businesses. He's a Finnish citizen, lives in France and runs our business in Switzerland and we're very pleased with his initial analysis of our business. We have some challenges there, specifically related to our brand as well as some other macro conditions. But we feel that we've got the team in place, led by Christian and supplemented by several members of our U.S. team and Canadian team who are living in Switzerland and helping to get the business turned around. So we're excited about the team. It's going to take some time to get us where we want to be there.

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**Kate McShane - Citigroup - Analyst**

Okay. I'm sorry. I just want to squeeze in one more question. I just was surprised to see the weakness in Montreal. What was that -- what was the cause of that during the quarter?

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**Tim Boyle - Columbia Sportswear - President, CEO**

Actually the backlog was -- it's -- first of all it's a very small brand for the company and the backlog was down as a percentage big number, but it's a little bit misleading in that we -- today we have I want to say 40% more points of distribution for the company's products than we had last year at this time. So slightly less backlog, but frankly a better, stronger business and we're pleased with the changes we made in the Montreal group and really the footwear business in total for the U.S. and globally looks like it's well under control with Mark Nenow and his team doing a great job. So the Montreal numbers are -- if you look at them from -- just from a percentage basis, they're -- they don't give the accurate reflection.

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**Kate McShane - Citigroup - Analyst**

Okay. Thank you.

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**Tim Boyle - Columbia Sportswear - President, CEO**

Um-hmm.

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**Operator**

Your next question comes from the line of Virginia Genereux. Virginia, your line is open.

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**Virginia Genereux - Merrill Lynch - Analyst**

Thank you. Bryan and Tim, so can you review again exactly how many sort of retail stores you exited kind of maybe '06 and '07 with -- and what the plan and the breakdown is for '08 and maybe '09 too.

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**Tim Boyle - Columbia Sportswear - President, CEO**

I'm sorry? Exited?

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**Virginia Genereux - Merrill Lynch - Analyst**

I'm sorry. Just the store -- no, I don't mean exited. How many -- what was the door count at year-end '06 and year-end '07?

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**Tim Boyle - Columbia Sportswear - President, CEO**

Okay. I'm going to let Bryan -- Bryan's got that stuff right in front of him, Virginia, so I'll let him talk to that.

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**Bryan Timm - Columbia Sportswear - CFO**

Sure. Virginia, we ended last year with about 13 outlet stores.

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**Virginia Genereux - Merrill Lynch - Analyst**

Okay.

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**Bryan Timm - Columbia Sportswear - CFO**

Again, as I mentioned earlier a lot of those were existing stores prior to this recent launch. We've obviously had a first line brand store in Portland, Oregon for quite some time. I think our plans -- again initially when we outlined them was really for about somewhere in that 15 kind of range for outlet stores, and I would say that that's pretty much where we're on pace for, for 2008.

In terms of branded stores, I know we've talked about a few of those and I think we're thinking of those both in terms of the Columbia brand as well as Mountain Hardwear. I think with the Columbia brand, we would probably look in our forecast to add potentially five of those in 2008 and maybe about three Mountain Hardwear stores as well. Of course, those platforms are going to be substantially different in size with the Columbia brand being larger than the Mountain Hardwear platform. And then of course, outward to 2008 and beyond I would say that we -- we'll wait and

see. I know Tim wants to make sure that we've proven some things out there with respect to the profitability and what not and -- but I would anticipate similar kinds of numbers in to the outward years as well, but we'll change that as we see necessary during this year.

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**Virginia Genereux - Merrill Lynch - Analyst**

Okay. So sort of 23 kind of total doors you were talking, Bryan. I was just thinking about the -- you said \$30 million in CapEx and sort of \$25 million -- half of your \$50 million SG&A increase is going to stores. An that -- those just sounded like big numbers to me relative to that kind of door count.

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**Bryan Timm - Columbia Sportswear - CFO**

Right. Well, again most of the doors we're talking about for this year are outlets. The CapEx associated with those are significantly less than potentially what some of the first line stores are. Again, right now we don't have a good forecast for all the leasehold improvements in some of the first line branded stores, so again that's our best estimate that we wanted to make sure that we're upfront about. That could of course change.

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**Virginia Genereux - Merrill Lynch - Analyst**

Okay. So maybe you're being conservative in terms of how much. It may cost less, is that what you're saying?

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**Bryan Timm - Columbia Sportswear - CFO**

Again, we -- we've really -- since we only have one of those existing right now, I guess that I'd rather wait until we have a few more under our belt.

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**Virginia Genereux - Merrill Lynch - Analyst**

Okay. And the cadence of those openings is it sort of -- when are most of them opening? Or is it kind of routable by quarter?

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**Bryan Timm - Columbia Sportswear - CFO**

Well, I guess it depends on if we're talking on if we're talking outlets or first line branded stores. I would say on the outlet side, I mentioned in our prepared remarks that we have quite a few of those ramping up in Q2 and so I would say -- and then continuing on through the rest of the year, so it's probably Q2 centric. On the branded stores, I would say definitely those are probably more back half weighted.

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**Virginia Genereux - Merrill Lynch - Analyst**

Okay. Thank you. And then on the advertising side, if you guys were -- how should we -- I think you spent -- I think advertising was 4% of sales kind of last year, Tim. And it's been sort of in the 50 to mid-50s neighborhood in dollar terms for a couple of years. I mean based on your K disclosure. Is that -- and it sounds like that's picking up this year. Do you guys think -- does that need to continue to ramp with the stores? I mean does that need to double sort of thing -- magnitude -- to get -- I mean even then it would be less than what the athletic guys -- some of those guys are spending in terms of sales.

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**Tim Boyle - Columbia Sportswear - President, CEO**

Right. So, yes. No, we don't need to double it in my opinion. We do need to increase it and we need to change the focus slightly, which we've done really in two ways. We've increased our own media spend fairly considerably over prior periods, and then we've aligned our co-op plans to be in complete alignment with the company's strategic go-to-market initiative. So our customers are spending their co-op funds to further the greater good, if you will, of our strategic plans and strategic go-to-market initiatives. So we get an additional multiplier by having a more focused co-op plan. So, but I don't think we need to double -- we will not double in 2008 and I don't believe that we need to double. But we do need to make more significant investments than we've had in the past.

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**Virginia Genereux - Merrill Lynch - Analyst**

Okay. And then just lastly, Tim if I may, following on Kate's question, I think. When do you think Europe bottoms for you guys? Or when -- and I'm asking because the backlogs were down low doubles, constant dollar, sort of this quarter. A year ago they were down pretty significantly. When do you -- and I know you -- there's been a lot of work there, but --

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**Tim Boyle - Columbia Sportswear - President, CEO**

There's been a lot of work here -- a lot of work that needs to continue to happen and some of it's going to be a function of adding a retail component, which we will there when appropriate. But I think we should start to see some changes I would say in spring '09 and the first changes we will see will be a more complete acceptance of our go-to-market strategies. They may not reflect in backlog volumes initially, but overall we should be starting to make great progress there in focus and alignment and that -- I believe that through '09 we'll be able to see some bottoming in the revenues.

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**Virginia Genereux - Merrill Lynch - Analyst**

All righty. Thank you all.

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**Tim Boyle - Columbia Sportswear - President, CEO**

Thanks.

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**Operator**

Your next question comes from the line of Jim Duffy with Thomas Weisel Partners.

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**Jim Duffy - Thomas Weisel Partners - Analyst**

Thanks. Hello everyone.

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**Tim Boyle - Columbia Sportswear - President, CEO**

Hi Jim.

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**Jim Duffy - Thomas Weisel Partners - Analyst**

What is your sourcing organization telling you about input costs for future periods? And with that in mind, for the Columbia brand, what's the thought process with regards to price points and the product value equations?

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**Tim Boyle - Columbia Sportswear - President, CEO**

Well, just as an overriding sort of preamble, because I'm going to let Bryan more specifically to some of these questions. The -- our sourcing costs for 2008 is baked in terms of what we expect to see happen and baked into the guidance that we've given today. And as sort of an overriding focus for the Columbia brand, we're going to continue to enhance the products' performance characteristics so that we are continually moving and offering a better product than generic. And so that's going to be a continued focus for innovation on the company. Basically a continuation of prior periods.

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But in terms of our sort of long-term view of Asian sourcing operations, I think -- and I'll let Bryan elaborate, but I think we're probably at the end of what has been a very long period of deflation in the category and some headwinds in terms of pricing. Bryan? Do you want to --?

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**Bryan Timm - Columbia Sportswear - CFO**

Sure. No, I mean exactly. I think Tim's pretty much covered it, but we're definitely seeing as it relates to at least 2008, as Tim said it's baked into our guidance. And certainly we saw some of those characteristics that I know a lot of our competitors are going through as well with respect to the currency appreciation against the dollar, with respect to the labor rates and some of the workforce issues that you see happening in Asia are all affecting our input or our FOB costs.

Again, our biggest challenge is trying to -- is really trying to mitigate that. So it's -- I don't think it's solely based on what our liaison offices can do in working with our factories, direct sourcing in some cases, making sure that we can work directly when partner up with our factory basis to make sure that we're listening to ways to make that process more efficient for them, which in turn should help us mitigate some of our costs. It's also consolidating vendors in certain situations to make sure that we've got a vendor base that truly understands what we're trying to accomplish, working well with our liaison offices.

And then from there, impacting costs, I think the input costs for us are only one element. It really needs to be a really precise focus on the entire supply chain. So, not just in Asia, but all the things that we do from a product inception all the way to -- through our distribution centers to our customers. So, probably more to come on that front.

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**Jim Duffy - Thomas Weisel Partners - Analyst**

So it sounds like as you look out to '09 you are expecting some price increases at retail. Is that fair?

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**Bryan Timm - Columbia Sportswear - CFO**

Again, Jim it's a little early I think for spring '09. Again, we've seen some pressures. Again, as Tim mentioned, there's certainly processes on the merchandising and product side of the fence to really mitigate some of those through innovation. So we're just now getting pre-cost information for the fall '09 season, so I think again it's a little bit early to say what those are and again it's way too early to say how much of that can we mitigate?

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**Jim Duffy - Thomas Weisel Partners - Analyst**

Recognizing that it's early, philosophically how will Columbia choose if it's a decision between rate of margin and gross margin dollars? For instance if you have to hold key price points like the \$99 price point, which could impact the rate of margin, would you concede that rate of margin to keep that business?

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**Bryan Timm - Columbia Sportswear - CFO**

No, we -- we've historically looked at rate of margin.

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**Jim Duffy - Thomas Weisel Partners - Analyst**

Okay.

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**Bryan Timm - Columbia Sportswear - CFO**

That's really what we have to measure ourselves at.

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**Jim Duffy - Thomas Weisel Partners - Analyst**

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Thank you. Very helpful.

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**Bryan Timm - Columbia Sportswear - CFO**

Yup. Thanks, Jim.

(OPERATOR INSTRUCTIONS)

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**Operator**

Your next question comes from the line of John Shanley with SIG Capital.

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**John Shanley - SIG Capital - Analyst**

Thank you and good afternoon, folks.

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**Tim Boyle - Columbia Sportswear - President, CEO**

Hello, John.

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**John Shanley - SIG Capital - Analyst**

Tim, I wonder if you could help us get a little bit more clarity on the apparel backlog in the U.S.? Can you break it down between outerwear and sportswear in terms of where the backlog build is?

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**Tim Boyle - Columbia Sportswear - President, CEO**

Bryan has that data in front of him, John. And we're -- we'll give you some color on it. We typically don't go into great detail, but we can give you a little bit of --

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**Bryan Timm - Columbia Sportswear - CFO**

Yeah. I mean John, there's not a lot to talk about there unfortunately with our backlog as it is and our guidance for the full year of around 2% on the top line. I would say that there's not a lot of movement between product categories as we look for the balance of the year. So, I think most of the products, as I look for the entire year, probably in that 1 to 2 percentage points. There's not a lot of variability between product -- the products on an absolute dollar basis or percentage basis.

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**John Shanley - SIG Capital - Analyst**

Okay. Fair enough. Can you tell us whether or not, Bryan, there's retail channels that seem to be backing up a little bit more in terms of their hesitancy to bring in product at this juncture that's causing the weakness of the backlog? Or is it pretty much across-the-board?

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**Bryan Timm - Columbia Sportswear - CFO**

Yeah John, I think if I had to point to a specific kind of customer, it would be more national operations, which are being more cautious because their footprint is over a broader geographic area. And customers that have a more narrow geographic area seem to have less reticence.

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**John Shanley - SIG Capital - Analyst**

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I see. Okay. And turning to Europe, could you give us an indication of how the three major product categories performed in the first quarter between outerwear, sportswear, and footwear? Were they all pretty much the same or were one or two substantially different than the other?

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**Tim Boyle - Columbia Sportswear - President, CEO**

I'm going to let Bryan speak to that.

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**Bryan Timm - Columbia Sportswear - CFO**

Yeah. John, I would say again my comments for the year would for the most part hold true in the EMEA region as it relates to Q1. There may have been -- just trying to put my finger on product category information for that region, but we may have had a little bit more weakness in the footwear area for Europe in Q1, but I would say that the apparel side of the fence is -- was fairly consistent in that small range that I talked about in the -- for the full year.

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**John Shanley - SIG Capital - Analyst**

Okay. Bryan, you mentioned in your presentation that you expect inventories to be lower in the second quarter than they were at the end of the first quarter. Is that going to be lowered by just basic sell through being achieved, or are you going to have to be more promotional in order to clear the inventory to bring it into balance with sales?

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**Bryan Timm - Columbia Sportswear - CFO**

No, really -- my comments were really on a Q2-over-Q2 basis that we expect -- as you'll recall, I think Q2 of last year we had a -- our inventories certainly bulged a little bit and that carried through to Q3 and Q4 of last year. Q4, we definitely brought a lot of our products in early for our Omni-Shade and Techlite launches. I think that my comments about thinking that from a year-over-year basis, they'll be trending down, is really one of the large number of retail doors on the outlet side that we will be -- that we're adding here in Q2.

Some of that inventory of course destined to them and hopefully selling through rapidly. As well as just some of the baked in guidance that we have for Q2 we've ramped up our sales to about the 6% range and again I think that was on kind of a flat backlog if I recall for the spring business. So, that's both a factor of some of the replenishment business from spring, and also some liquidation of some fall '07, but again that -- that's baked into the guidance and that's probably why you're seeing a little bit close to 50 basis points worth of contraction in the guidance for Q2.

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**John Shanley - SIG Capital - Analyst**

Okay. Good enough. Last question I have is can you tell us the approximate size of the outlet and first line Columbia stores? How big are they?

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**Tim Boyle - Columbia Sportswear - President, CEO**

Sure, John. Well, the historical Columbia outlet stores, which the company's had open for many, many years have been smaller. I would say they average in the 4,000 to 5,000 square foot area. And those would typically have been in a C mall -- C outlet mall. Our focus for the balance of these stores will be in A malls, and we seem to have a terrific reaction in the stores that we've opened so far. And those are going to average 9,000 to 10,000 square feet. So that'll give you some idea of what we're doing for the Columbia outlet store expansion business.

And then as it relates to the first line stores, I would say it really is going to be a function of location, where we can find a location. We have plans to open stores that would be approaching for the Columbia side, 15,000 to 18,000 square feet, 4,000 to 5,000 square feet on the Mountain Hardware store, and I doubt that we would consider for Columbia anything smaller than let's say 7,000 to 8,000 square feet, but it's too early. It would depend on the location and the Mountain Hardware template is going to be in the 4,000 to 5,000 square foot range.

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**John Shanley - SIG Capital - Analyst**

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Tim, are the Columbia stores going to be mall-based or are they going to be downtown metro locations?

**Tim Boyle - Columbia Sportswear - President, CEO**

Well, they're going to -- they've primarily been the downtown locations, but if a great spot in a specific mall were to come up, we would certainly take advantage of that.

**John Shanley - SIG Capital - Analyst**

Okay. Good enough. Thank you very much. Appreciate it.

**Tim Boyle - Columbia Sportswear - President, CEO**

Thanks, John.

**Operator**

Your next question comes from the line of Sam Poser with Stern, Agee.

**Sam Poser - Stern, Agee & Leach, Inc - Analyst**

Good afternoon.

**Tim Boyle - Columbia Sportswear - President, CEO**

Hi, Sam.

**Sam Poser - Stern, Agee & Leach, Inc - Analyst**

Can you talk -- I guess, how are you drive -- the -- you might have spoken about this already. I joined the call about halfway through. But to get to the -- you're looking at 2% for the full year on a revenue increase and 6% for a second quarter. What's the driver in Q2?

**Tim Boyle - Columbia Sportswear - President, CEO**

Well, I'm going to have Bryan speak to this specifically, but you have to remember Q2 is our lowest volume quarter, so any particular order moving one way or another can create an aberration that wouldn't be extrapolated across a year. But Bryan, do you have some further comments on that?

**Bryan Timm - Columbia Sportswear - CFO**

Not really, Tim. Again, as you said, it's our smallest quarter, so it's -- just as we looked at our order profiles and what we plan on shipping both from a -- an initial order, some reorder activity, some auto replenishment, and as I mentioned earlier, a little bit of fall '07 access selling, our best estimate at this time is we'll be about 6 percentage points up on sales over 2007 Q2.

**Sam Poser - Stern, Agee & Leach, Inc - Analyst**

And then based on the following -- the backlog for the back half, you're looking at basically almost flat revenue.



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**Bryan Timm - Columbia Sportswear - CFO**

That's correct. Yeah.

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**Sam Poser - Stern, Agee & Leach, Inc - Analyst**

Towards the back half.

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**Bryan Timm - Columbia Sportswear - CFO**

It's not much different than that, you're right, Sam. For the back half, from what we've done in Q1 and what we're guiding to in Q2, that would make the back half not much better than flat.

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**Sam Poser - Stern, Agee & Leach, Inc - Analyst**

Yeah. It'd be just a hair up from there. And then just on the footwear business for a second. There's been a lot of talk -- and I think John started to bring it up a little bit -- on the pricing out of China, especially on the footwear, and your brand positioning of that product, mostly in the Columbia brand. How is that affecting you for fall and looking ahead for relating to a price value relationship that you want to give to your clients? Is -- are you moving to Inland China, Northern China, Vietnam, and so on for sourcing to be able to maintain the prices?

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**Tim Boyle - Columbia Sportswear - President, CEO**

Yeah. I'm going to have Bryan speak specifically to the geographic locations, but basically we've seen some increases, as have others. We are frankly so embryonic in this business that we can have a very significant impact on the specific item's price and frankly the specific item's margin for us by just being better at the design and delivery components. We're -- historically we've not -- that's not been our strength.

So, as you know we've changed almost the entire team over the last 24 months that's managing our footwear business and really bringing it in line to become a world-class organization. So, that'll -- that's just maybe a little overview of how I look at the business. And again, I would say from our size, there's a lot of leverage that we have to pull that maybe a larger organization wouldn't to increase profitability to offer greater value. Bryan, you want to talk a little bit about specifically where the sourcing focus is coming from?

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**Bryan Timm - Columbia Sportswear - CFO**

Yeah. I mean as it relates to the footwear definitely we're sourcing in China, but also in Vietnam. So, again those are certainly two countries that are going through some pretty good inflation. Labor rates in both markets are certainly increasing and you're seeing quite a bit of workforce issues out of both. So, again it probably comes back to my comment earlier on the apparel side that we'll have to continue to really isolate where we can make some improvements, and that's not just on the inputs or the FOB costs, but it's all the way through the entire supply chain for that matter.

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**Sam Poser - Stern, Agee & Leach, Inc - Analyst**

Okay. Thank you very much.

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**Tim Boyle - Columbia Sportswear - President, CEO**

Thanks, Sam.

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**Operator**

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And gentlemen, there are no further questions at this time. Do you have any closing remarks?

**Tim Boyle - Columbia Sportswear - President, CEO**

No. We really appreciate everyone listening in. We have a very competitive group of people here at the company. We don't like to be producing results which aren't exceptional and our expectation is that over time we will continue to prove that we have the capacity to be a very vibrant, growing, and highly profitable business. Even beyond the rung where we are today. So we thank you for listening in.

**Operator**

This concludes today's Columbia Sportswear First Quarter 2008 Earnings Conference Call. You may now disconnect.

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